

MORI BUNDLE #

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DEPARTMENT OF STATE

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TO JAPAN 17 OF SEPTEMBER

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FROM : BlackBerry DJ/14174

Page 11

SUBJECT: RELATIONS WITH JAPAN: Recent Developments

### In Japanese Credits to Indonesia

REF : O-2P Section 2; A-242 of Sept 26, 1964; A-1114  
of June 10, 1964

AMERICAN OFFICIAL USA SUMMARY

Two new Japanese credits were announced in the press in the past month: one for a thermal power plant at Djakarta's port, Tanjung Priok, and another for road-building equipment. However, the awarding of Japanese credit guarantees is still undecided in the first case, and is apparently not possible in the second. A 325 million fertiliser project has reached preliminary agreement only. Japanese experience with production sharing agreements in Indonesia has indicated that a similar project may be undertaken in this form once the relationship between the two groups of nationals has been mutually accepted, and no large producing project in that form was begun in late 1964. Progress is reported on two of the Japanese reparation projects.

**MISSION:** Japanese interest in Indonesian territories, a discouraging factor, but new projects are being undertaken.

Pl 1 Two Japanese firms, Shinkin and Nippon, submitted the winning bid in an international competition which included West Germany, Czechoslovakia, other Japanese firms and several other countries. The contract has been signed, and awaits ratification which may encounter some difficulties on the Japanese side. The two firms have applied for a government credit guarantee about which the AID is still undecided, according to the Financial Officer of the Japanese Embassy; the firms will grant deferred payments even without the guarantees. The project will cost some \$16 million. When completed, it should be the largest power plant in Indonesia with a capacity of 150,000 kilowatts, larger than Djatiluhur; construction will take three years according to Antara.

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Road Building Equipment During mid-February, when the roads were beginning to recover from the devastating effects of extreme rains, the GOI Department of Public Works announced that Japan would provide \$2.5 million worth of road building equipment. Within the GOI budget, Rp 12 billion is to be spent on repairs - with emphasis on roads in Djakarta and the Djakarta - Bandung highway. Meanwhile the usual patching operations are in process, but this year President SUKARNO became sufficiently annoyed by the potholes - which were unusually bad - to the point of ordering that some of the most heavily used roads be rebuilt with stronger foundations.

Mr. TOWING told the reporter, however, that no GOI governmental credit guarantee was in prospect. While some of the Japanese exporters may grant deferred payment terms of less than one year, the majority - representing about \$2 million worth of a total somewhere between \$2 and \$3 million - were asking for cash, chiefly dollars. His information was that the GOI was nevertheless moving ahead with the conclusion of contracts rather than trying to find lenders in other countries; this indicates a new seriousness in the attention to the roads here.

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Sumatra Highway and Fertilizer Plant Antara reported that the Japanese would conduct a \$15,000 survey for the trans-Sumatra highway, and Yoshino confirmed that 6 million yen had been included in the 1965 GOI budget for that purpose but said that nothing further had been projected. Another project, reported by Business Week, concerned a \$25 million expansion of the Sriwidjaja fertilizer plant in Palembang from 100,000 to 200,000 tons capacity. Yoshino said that the firm in question, 2010 MUSICA KAISHA, had been negotiating with the GOI and had probably signed a preliminary agreement. But a project on this scale could not be initiated without a credit guarantee, and the GOI was giving it a lower priority than the power plant (discussed above).

Production Sharing A new project for sugar production on the island of Solor was agreed upon in late 1964, though a number of technical questions remain to be settled. The first shipment of equipment has already arrived. (Note: this can be added to the list of production sharing projects in A-242 of 9/25/64, and the date of the Kaliwungu timber project can be defined as late 1963.) Regarding the production sharing method of investment in Indonesia, of which Japan has been the first and most active practitioner, Yoshino expressed guarded optimism. Initial experience has in fact encouraged others to follow this method, though not at a rapid pace (the four Japanese production sharing cases in 1960, 1962, 1963, and 1964). The chief difficulty, he said, was that the Indonesians usually wanted to manage everything without knowing what they were doing, and only with time came to appreciate the value of Japanese expertise and adapt themselves to an efficiently productive coexistence.

Progress Reports The diversion tunnel and coffer dam on the Brantas river were formally dedicated last November, which constituted a completion of the first phase of the \$20 million Karangkates irrigation and flood control project - the largest project under the Japanese reparations agreement. Consulate Surabaya reports that the main dam is to be built by the Indonesians, with Japan supplying technicians only, whereas the first phase was handled entirely by a Japanese firm, KAJIMA CONSTRUCTION CO. The GOI has been wavering on whether or not

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Install generating equipment in a dam conceived for flood control and irrigation only. Most recently it has been decided to install four 15-megawatt generators if they can be financed - they do not fall under the Japanese reparations agreement.

The \$3.5 million paper mill at Tanjung, on Java, started October 1963, will not be completed on schedule December, 1964, owing to delays in arrival of construction materials, but should begin operations in early 1966. Internal reports, when completed, it should have a 30 ton per day capacity which could in time be raised to 60 tons. Although pine is ordinarily used for making paper, this factory was specially designed to use bamboo in order to take advantage of a 9,000 hectare bamboo forest nearby - more than a ten year supply. Japanese experts are assisting in the construction under Indonesian supervision. The project does not form a part of the reparations program, but the credit for its construction is guaranteed by the Japanese reparations as pledged by the GSI.

Miscellaneous. Mr. Yoshino stated that as of now over \$90 million in loans to Indonesia had been guaranteed by the reparations money, and that about \$20 million of this has been repaid in dollars. Perhaps \$75 or \$80 million remained unpaid, he estimated.

The "emergency" \$12 million credit, originally granted as part of the international support for Indonesia's 1963 stabilization program, had been held up after the collapse of that program. But it was revived in 1964, and by now all but \$540,000 has been obligated and deliveries are in process.

For the Ambassador

*Perry Ellis*  
Perry Ellis  
Counselor of Embassy  
for Economic Affairs

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